

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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February 13, 2008

Karen Wilcox, Director of Finance
Sacramento Area Council of Governments
1415 L Street, Suite 300
Sacramento, CA 95814

Re: Audit of Indirect Cost Allocation Plan for FY 2007/2008
File No: P1190-0660

Dear Ms. Wilcox:

We have audited the Sacramento Area Council of Governments (SACOG) Indirect Cost Allocation Plan (ICAP) for the fiscal year ending June 30, 2008 to determine whether the ICAP is presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's Local Programs Procedures (LPP) 04-10. SACOG's management is responsible for the fair presentation of the ICAP. SACOG proposed an indirect cost rate of 57.83% of total direct salaries and wages plus fringe benefits for fiscal year 2008.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the Government Auditing Standards issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of SACOG. Therefore, we did not audit and are not expressing an opinion on the SACOG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by SACOG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department of Transportation's (Department) LPP 04-10, and is not intended to present the results of operations of SACOG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a limited review of SACOG's Overall Work Program (OWP) for fiscal year 2007/08, a comparison of the ICAP to single audit report for

fiscal year 2005/06, a comparison of the ICAP to SACOG Board approved budget for fiscal year 2007/08 as well as to the prior year ICAP, and a comparison of the ICAP to prior field work performed by Department staff on September 2004. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

AUDIT RESULTS

Based on audit work performed, SACOG's ICAP for the fiscal years ended June 30, 2008 is presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate is 57.83% of total direct salaries and wages, plus fringe benefits for the fiscal year ended June 30, 2008. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

This report is intended solely for the information of the SACOG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plan for your files. Copies were sent to the Department's District 3, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Max Chamberlain, Auditor at (916) 323-7950 or Amada Maenpaa, Audit Supervisor, at (916) 323-7868.


MARYANN CAMPBELL-SMITH
Chief External Audits

Attachments

cc: Ben Bramer, District 3
Brenda Bryant, FHWA
Gary Buckhammer, Division of Accounting
Susan Wilson, District 3
Andrew Knapp, HQ Planning
File Copy P1190-0660

SACRAMENTO AREA COUNCIL OF GOVERNMENTS (SACOG)
INDIRECT COST ALLOCATION PLAN

Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the Sacramento Area Council of Governments and approved by the Department.

SECTION 1: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	7/01/07 to 6/30/08	57.83%	All Programs

* Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Sacramento Area Council of Governments

Signature: Karen Wilcox

Reviewed, Approved and Submitted by:

Name of Official: Karen Wilcox

Title: Director of Finance

Date of Execution: May 23, 2007

Signature: Karen Wilcox

Prepared by:

Name of Official: Karen Wilcox

Title: Director of Finance

Telephone No.: 916 340 6210

INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

Signature: Mary Ann Campbell Smith

Reviewed and Approved by:

Name of Audit Manager: Mary Ann Campbell Smith

Title: Chief, External Audits

Date: 2/13/08

Phone Number: 916 323-7105

Signature: Max R. Chamberlain

Reviewed and Approved by:

Name of Auditor: Max R. Chamberlain

Title: Auditor

Date: Feb. 13, 2008

Phone Number: 916-323-7950

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

FY 2008 Budgeted Indirect Costs	\$ 2,730,156
Carry Forward from FY 2006	\$ <u>304,450</u>
Estimated FY 2008 Indirect Costs	\$ 3,034,606
FY 2008 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$ 5,247,057
FY 2008 Indirect Cost Rate	57.83%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2008 (July 1, 2007 to June 30, 2008) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

**Sacramento Area Council of Governments
FY 2007/08 Indirect Cost Allocation**

Project: Indirect Services and Support	FY 07/08
Total Direct Salary and Benefit Basis	\$ 5,247,057
Total Indirect Expenses	2,730,156
Carry Forward (+ or -) from FY 05/06	304,450
ADJUSTED INDIRECT TOTAL	\$ 3,034,606
INDIRECT RATE - FY 2007/08	57.83%

Indirect Detail for FY 2007/08

	EXPENDITURES	AMOUNT
3	Meetings	\$ 20,000
6	Printing	13,000
6	Consultant	90,000
7	Mileage	10,000
8	Legal Services	178,000
10	Other Expenses	3,000
11	Books & Periodicals	4,500
12	Office Supplies	40,000
13	Postage	27,000
14	Telephone	30,000
15	Office Equipment Maintenance	10,000
16	Memberships	50,000
17	Depreciation	113,000
18	Insurance	11,000
19	Unemployment Costs	2,000
21	Building Rent - Meridian Plaza/CAM costs	670,000
23	SACOG Vehicle Parking	7,200
25	Office Equipment <\$1,000	20,000
32	Accounting Processing Costs	8,000
33	Copier Usage/Supplies	30,000
34	Printing costs (offset)	(\$27,000)
42	Career Development Program	75,000
69	Computer Software Maint/License	46,700
70	Temporary Services	4,000
99	Indirect Staffing (salaries/benefits)	1,234,756
	TOTAL FOR FY 2007/08	\$ 2,730,156

Attachment II CARRY-FORWARD COMPUTATION

Revised in Nov 05
projected on May 10, 2006

NEGOTIATED INDIRECT RATE	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	50.32%	56.00%	54.66%	49.38%	50.05%	57.01%	57.83%
Base Salaries & Benefits	\$2,911,085	\$3,124,438	\$3,350,096	\$4,598,991	\$4,459,916	\$5,057,381	\$5,247,057
Indirect Costs	\$1,598,000	\$1,649,160	\$1,799,000	\$2,293,500	\$2,349,890	\$2,433,322	\$2,730,156
Carry Forward (+ or -)	(\$133,098)	\$100,526	\$32,232	(\$22,606)	(\$17,702)	\$449,775	\$304,450
Adjusted Indirect Costs	\$1,464,902	\$1,749,686	\$1,831,232	\$2,270,894	\$2,332,188	\$2,883,097	\$3,034,606
ACTUAL COSTS							
Base Salaries & Benefits	\$2,669,399	\$3,195,364	\$3,612,952	\$3,833,123	\$4,307,127	✓	
Indirect Costs	\$1,563,851	\$1,709,180	\$1,961,864	\$2,365,177	\$2,477,870	✓	
Carry Forward (+ or -)	(\$133,098)	\$100,526	\$32,232	(\$22,606)	(\$17,702)	\$449,775	\$304,450
Adjusted Indirect Costs	\$1,430,755	\$1,809,706	\$1,994,096	\$2,342,571	\$2,460,168	\$449,775	
CARRY-FORWARD COMPUTATION							
Actual Recovery							
(Fixed Rate X Actual Base)							
59.60% x \$1,703,426							
59.03% x \$1,914,000							
58.00% x \$2,266,021							
57.00% x \$2,365,653							
57.00% x \$2,341,540							
57.00% x \$2,298,639							
55.00% x \$2,484,461							
56.00% x \$2,516,201							
50.32% x \$2,669,399+\$1,956	\$1,345,198						
56.00% x \$1,195,364		\$1,789,405					
54.60% x \$1,612,952			\$1,974,839				
49.38% x \$1,833,123				1,892,796			
57.01% x \$4,307,127					2,155,718		
Should Have Recovered	\$1,430,753	\$1,809,706	\$1,994,096	\$2,342,571	\$2,460,168	\$449,775	\$0
Initial (OVER)/UNDER-RECOVERED	\$85,555	\$20,301	\$19,257	\$449,775	\$304,450	\$449,775	\$449,775
CALTRANS AUDITS REVISIONS	(\$53,323)	(342,907)	(\$30,950)				
Adjustment to 02/03 for disallowed costs 1/1/04/04							
Adjustment to 03/04 for disallowed costs 1/1/04/04							
Cumulative Adjustment to tie to over-absorbed number for Financial Statement purposes for FY 03/04							
Final (OVER)/UNDER-RECOVERED	\$32,232	(\$22,606)	(\$17,702)	\$449,775	\$304,450	\$449,775	\$449,775
Carryforward Amount	\$133,098	(\$100,526)	(\$32,232)	\$22,606	\$17,702		
Initial (over) under recovered	\$85,555	\$20,301	\$19,257	\$449,775	\$304,450		
Total Over (Under) Allocated for the period = 1	\$218,653	(\$80,225)	(\$12,975)	\$472,381	\$322,152		